

Sharp drop in natural gas prices being felt in patch

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CHEYENNE, Wyo. - A year ago, sharply rising natural gas prices and America's growing thirst for energy prompted a rush by gas producers to find new reserves.

Supply has now caught up with and surpassed demand, and the resulting precipitous price drop, as surprising as 2000's rapid upswing, is rippling through the gas fields. Some workers are already being laid off.

Gary Hoggatt, drilling superintendent for True Drilling, in Casper, Wyo., said nearly half his company's 12 rigs and scores of workers are being idled because of a drop in orders.

``We lost two rigs because of prices and we'll probably lose three more in the next few weeks, which is a big percentage," he said. ``The typical rig takes about 20 people to operate it, so for every rig that goes down, 20 people are out of work."

Businesses dependent on the drilling companies also suffer.

``We're probably down 10 percent," said Bill Martin Jr., of Vernal, Utah, who helps prepare sites for rigs in Utah, Colorado and Wyoming. ``What affects you depends on what company you're working for."

Last winter, heating bills soared as natural gas supplies shrank and demand from industrial users climbed. The wholesale price of gas, which traded around \$2.50 per 1,000 cubic feet in the late 1990s, rocketed above \$10 in January.

For a while, natural gas companies raked in huge profits as they cranked up production, but their aggressive drilling collided with a drop in demand as the economy faltered. Prices are now well below \$2 for many Rocky Mountain producers.

Prices in New Mexico, the second-largest natural gas-producing state behind Texas, are about \$1.50 per 1,000 cubic feet. After pipeline transportation costs are deducted, many producers receive far below \$1.

``We are seeing dozens of rigs being stacked," said Bob Gallagher, president of the New Mexico Oil and Gas Association, an industry group. ``They're not moving them to the next job they had planned because the job cannot be economically justified."

However, energy users can expect to see some relief. A typical household using natural gas is expected to spend 34 percent less this winter for heating, a federal report said. Electricity could also be cheaper, as more than 15 percent of the nation's power is derived from natural gas.

Cheyenne resident Ray Sanchez, 39, whose heating bill hit \$210 last winter, said many people shivered as they tried to save money.

``If prices go down, people can heat up their houses and everyone can stay warm," he said.

But industry representatives say there's a good chance prices will reverse course again, with the cycle repeating itself.

``This time next year we are going to be in short supply of natural gas because of the six, seven, eight months we could not economically justify new exploration," Gallagher said. ``It's a vicious circle."

In the meantime, in Wyoming, where output is capped by a limited number of pipelines, producers are hurting.

``Some of our pipelines are full, and when that happens that drives the price down even lower compared to the U.S. as a whole," said Don Likwartz, supervisor of the Wyoming Oil and Gas Conservation Commission.

Houston-based supplier Baker Hughes said the number of rigs exploring for oil or gas in the United States reached 1,293 on July 13. That was 39 percent higher from a year earlier and the most since 1986. In the past three months, the number has fallen 13.3 percent, to 1,121.

The dropoff in exploration will continue if prices remain low, said Marc Smith, executive director of the Denver-based Independent Petroleum Association of Mountain States, which represents 800 independent oil and gas producers.

Based on analysts' estimates of the price leveling around \$4, many producers sank most of their cash into exploring for new wells or acquiring property, he said.

``If they did that, they're in trouble," he said.

Producers now have less money to recover the cost of acquiring land, drilling and completing wells if oil or gas is found, said Ken Farmer, a Casper petroleum geologist and independent producer.

``You've got to have the potential on the other end of getting 'x' amount of gas and oil out of the ground to pay for all that and make a reasonable profit," he said. ``When you don't know what the price of potatoes is going to be, it's kind of hard to plant them."

Natural gas exploration and production likely won't be affected by the war on terrorism, Gallagher said, because the United States imports less than 15 percent of its natural gas.

The greater impact might occur in the oil industry, where imports make up about 60 percent of U.S. consumption, he said. Increased needs by the military or disruption of supplies abroad could drive up prices.

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On the Net:

Rocky Mountain Oil Journal: <http://www.rmoj.com>

American Petroleum Institute: <http://api-ec.api.org/frontpage.cfm>

Federal monthly gas review: <http://www.eia.doe.gov/mer/natgas.html>

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